

# Improving Receivables Management in Asia

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The Asia Pacific region presents unique challenges to company treasurers. Consisting of developing and developed markets, Asia is characterised by vastly different market infrastructures and payment practices. Traditional collections channels exist alongside web-based payment methods in certain countries. Although technology and collections systems in countries have modernised, companies still face problems in receivables management due to inefficient processes or insufficient information.

The result is irreconcilable accounts and prolonged Days Sales Outstandings (DSOs), which means that working capital management is not optimised. Enhancing the accounts receivable process thus poses a significant challenge for companies trying to cope with a plethora of systems and standards.

This article provides an update of the various payment infrastructures and collections processes in Asia, and offers insights and considerations for treasurers looking to improve their collections process in Asia.

## The collections landscape in Asia

There are two types of collections: Business-to-Business (B2B) and Consumer-to-Business (C2B). In B2B or wholesale collection companies pay to other companies, whereas in C2B or retail collections individual consumers pay to companies. Both types of collections have unique challenges to sellers.

### Business-to-Business collections

In B2B collections, seller organisations need an efficient solution to reconcile payments which may be paid in part or whole. The seller typically needs to be able to handle buyers making one payment for several invoices, or remittances that often include partial payments,

rebates, credit notes, and early payment discounting.

There is a timing difference between actual receipt of funds and receipt of remittance advice sent by the buyer via post, email or fax. The timing difference also occurs in an Internet invoice presentment scenario if the payer selects to receive invoices via the Internet but sends the payment separately. Furthermore, lack of information provided in the remittance advice will cause problems in reconciliation for the seller. The buyer may provide its own reference number but not the seller's original invoice number. In some countries payers do not normally provide remittance information, thus defining rules to automate the reconciliation process becomes crucial.

Seller organisations are often compelled to accept different payment methods because of common industry practices, and this adds more complexity to the process.

### Consumer-to-Business collections

In C2B collections, the seller's objective is to provide a convenient and secure payment channel for individual buyers. Payments tend to be high-volume and low-value.

In countries where checks are common payment methods, sellers typically use a retail lockbox service to collect checks from consumers. Sellers need banks with a wide network of collection points, which may include correspondent banks, post offices, or convenience stores, depending on the most commonly used payment methods in each country.

Direct debit is another common payment method. With direct debit, the seller sends one file to its bank to debit its retail customers' accounts. Direct debit is commonly known as Giro collection in Korea and Singapore, and Autopay Debit in Hong Kong. The challenge with direct debit is with sellers obtaining the direct debit authorisation from buyers. The process can be time-consuming as most paying banks must validate

the original physical copy of the debit authorisation with the payer's signature.

In markets where credit card payments are popular, the relatively high interchange commission is a typical consideration.

Finally, where funds transfers are the predominant payment method, the challenge for companies is to get sufficient information from the remittance to properly identify the payer of the funds.

## Payment methods

It is important for companies to understand the different payment methods and payer behaviors in Asia so that an optimal receivable money process flow can be achieved. The markets in Asia are fairly efficient and not as paper-based as one may expect. The focus on creating more efficient local clearing systems has swayed many countries away from paper and towards more electronic and Internet-based payment and collection solutions.

### Checks, promissory notes and drafts

In North America and Europe, checks are paper-based payment instruments for domestic payments used for B2B and C2B. In Asia, checks take on different meanings as there are variations of paper-based payment instruments.

In Australia, Hong Kong, Malaysia, New Zealand, and Singapore, checks are used in similar way to North America and Europe. In these countries as well as the Philippines, companies and individuals commonly issue checks to make payments. In the rest of Asian countries, check payments are typically used for B2B payments only, and take on several variations.

Japan and Korea use promissory notes that are usually post-dated, instead of checks. Promissory notes have two dates – issue date and due date. In Japan, checks expire in ten days and used only for sight (immediate) payment. Checks in Korea are issued by banks, equivalent to cash, and can

be freely negotiated. If one is withdrawing money from an ATM, the ATM will offer two options - withdraw 'note' or 'check'. If 'note' is selected, the ATM will provide cash. If 'check' is selected, the ATM will print out a check with the desired value.

In addition to Japan and Korea where post-dated promissory notes are common, Taiwan, Thailand, Philippine, Indonesia, and Malaysia provide post-dated checks. Unlike promissory notes, which have an issue date and a due date, the issuer puts a future date on the check and this is an acceptable process in many industries. The payee may present the post-dated instrument together with the sales evidence or invoice as a way to obtain financing.

In China, checks are restricted for local, intra-city usage and expire in ten days. For payments across different provinces, bank drafts are normally used.

By and large, most countries in Asia have developed efficient check clearing systems. The upcountry check clearing system in countries like Malaysia, Thailand, Philippine and Indonesia can be challenging, because of the number of clearing zones and physical distance between locations. However, urban areas are more efficient.

#### Electronic funds transfers

Electronic funds transfers typically clear through an automated clearinghouse (ACH), and may be processed in Real Time Gross Settlement (RTGS). In an RTGS environment, the funds transfer is immediate, taking only a few seconds for funds to be credited to the beneficiary's account after the remitting bank releases the payment. In a non-RTGS environment, transfer of funds occurs at the end of the day.

Electronic funds transfers are available in most Asian countries. In North Asia including Hong Kong, Japan, Korea and Taiwan, electronic funds transfers are used in both the corporate and consumer context. In Australia, Malaysia, New Zealand, Singapore, Thailand, and the Philippines, RTGS is normally restricted for urgent payments because of its high cost. For example, in Malaysia, a minimum threshold of MYR50,000 as transaction amount is imposed; while in Indonesia, a threshold of IDR 1 billion is imposed by most banks for RTGS payments.

#### Giro and direct credits

Giro and direct credits are designed for high-volume and low-value domestic funds transfers. At day end, the remitting bank sends one large file containing all the payment instructions received that day. The clearinghouse in turn sorts all incoming transactions and distributes them to the respective beneficiary banks. Normally, the beneficiary receives the funds next business day.

Day-end batch payments are known by different names in the various markets

where it is available. In Australia and New Zealand, the payment method is known as direct credit; in Singapore and Korea as Giro payments; in Hong Kong as autopay; and in Thailand as Media Clearing.

#### Paper-based funds transfers

Paper-based funds transfers are processed based on a physical voucher. The remitting bank or remitter prepares the physical voucher and sends it to the clearinghouse. The clearinghouse, in turn, distributes the payment voucher to beneficiary banks. This payment method is used in China in all major cities, but settlement is restricted to intra-city. In Indonesia, such paper-based funds transfer is nationwide and called LLG (*Lalu Lintas Giral*).

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#### Direct debit

In a direct debit arrangement, the payer provides one-off prior authorisation to allow the seller to debit the payer's account. Direct debit is available in Australia, Hong Kong, Korea, New Zealand, Singapore, through the country's clearinghouse. Taiwan is expected to launch the direct debit service in April 2003.

The process of obtaining authorisation for direct debits differs by country. In Singapore, the original mandate with the payer's signature must be sent to the paying bank for approval whereas in Australia, the biller retains the original mandate. In Hong Kong, a list of the payers' account information is sent to the respective paying banks for validation. In Korea, it is possible for the biller to validate the mandate electronically and the direct debit deduction instruction is sent from the biller to the clearinghouse. For other countries, direct debit instructions must be sent via a bank to the clearinghouse.

#### ATM funds transfers

Japan, Korea and Taiwan have integrated ATM networks across all banks allowing funds transfers to be easily transacted over these networks. It is quite convenient for an ATM cardholder of bank A to insert his card into an ATM machine of bank B and transfer funds to an account in bank C. In other countries, ATMs are considered part of a bank's branch network and each bank's ATM system may or may not talk to another bank's network.

In certain countries, banks form networks allowing bilateral settlement within the group. In a number of South Asian countries including Indonesia, Malaysia, and the Philippines, billers set up bill collection arrangements via an ATM directly with individual banks.

#### Cash

Over-the-counter cash payments are still common in Asia, particularly in countries where personal checks are not widely used. In these markets, cash payments are normally made at banks, post offices and even convenience stores.

#### Credit card

Credit card payments are common in Asia, with the exception of Vietnam. In China, local credit card and international credit card networks are incompatible.

#### Country-specific methods

Country-specific methods include BPAY in Australia and Payment-by-Phone System in Hong Kong. Both are gaining increased acceptance in these markets.

- ◆ BPAY (bill payment) in Australia is a clearing network for bill settlement with over 8,000 registered billers and more than 130 financial institutions. Payers who have accounts with any of the registered financial institutions can pay via Internet or phone banking to any of the 8,000+ registered billers.
- ◆ Payment-by-Phone System (PPS) in Hong Kong is provided by the Electronic Payment Service Co. (HK) Ltd which is jointly owned by 35 member banks. Consumers wishing to register as PPS payers need to swipe their ATM card at a PPS terminal located in most major public areas. The PPS payer can use telephone or the Internet facility of PPS to make payments. Currently, over 120 billers participate in this network.

## Country groupings

Based on similar market infrastructure and customer paying habits, we can group Asian countries into four groupings for easier identification:

## Summary of payments methods in Asia

	Checks, Promissory Notes, Drafts	RTGS / On-line	Giro (Batch) / Paper-Based Funds Transfers	Direct Debit	ATM Funds Transfers	Credit Cards	Others
Australia	Check	RTGS	Direct Credit	Direct Debit	-	Credit Cards	BPAY
China	Check (local only)	RTGS	Paper Based FT (through PBOC or correspondent banks)	ACH Debit (Limited Application)	-	Credit Cards	-
Hong Kong	Check	CHATS (HKD, USD)	Direct Debit or AutoPay Debit	AutoCollect	Jetco Networks	Credit Cards	PPS IPG (Internet Payment Gateway)
Indonesia	Check	RTGS	LLG (paper based)	-	-	Credit Cards	-
Japan	Promissory Notes / Check	BOJNET, Zengin	-	Bilateral	Interbank FT	Credit Cards	-
Korea	Promissory Notes	BOK Wire, Tahanghwan, EFIN	Bank GIRO, CMS	Bank GIRO, CMS	Interbank FT	Credit Cards	-
Malaysia	Check	RENTAS	Bank Draft	-	-	Credit Cards	-
New Zealand	Check	RTGS	Direct Credit	Direct Debit	-	Credit Cards	-
Philippines	Check	Peso Net, PDDTS (USD)	-	-	-	Credit Cards	-
Singapore	Check (SGD, USD)	MEPS	GIRO Payment	GIRO Collection	-	Credit Cards	-
Taiwan	Check	BOTNET, IBRS, FEDI	Mass Payment	ACH	Interbank FT	Credit Cards	-
Thailand	Check	Baht Net	Media Clearing	Intrabank Bilateral	Interbank FT (Foreign Banks excluded)	Credit Cards	-
Vietnam	-	RTGS	Paper Based	-	-	-	-

Group 1: Australia, Hong Kong, New Zealand and Singapore

Group 2: Japan, Korea and Taiwan

Group 3: Indonesia, Malaysia, the Philippines and Thailand

Group 4: China and Vietnam

Group 1 countries are characterised by standard payment methods. RTGS is used for

high-value payments, Giros and direct debits for low-value payments, and checks.

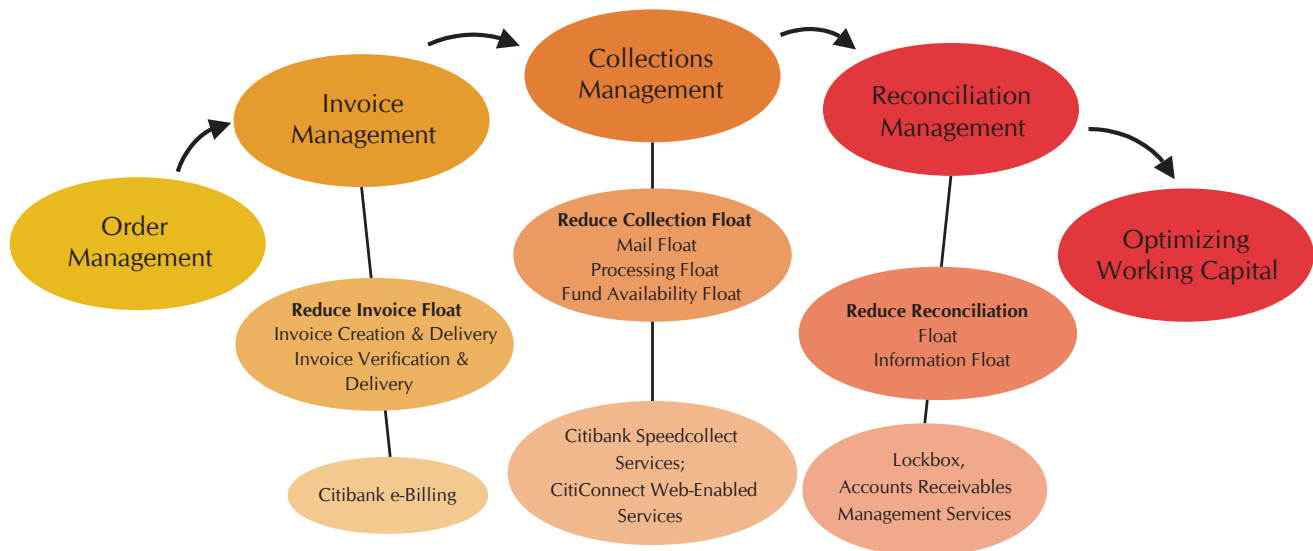
Countries in this category are Australia, Hong Kong, New Zealand and Singapore.

Group 2 countries are characterised by wide usage of online real-time systems for all payments, both high and low value, corporate and consumers. Countries in this group are Japan, Korea and Taiwan. In Japan, the online real-time system

is Zengin. In Korea, it is Tahanghwan or Electronic Financial Information Network (EFIN); and in Taiwan, Inter Bank Remittance System (IBRS) and Financial Electronic Data Interexchange (FEDI) system.

Group 2 countries are also characterised by rapid growth of value-added banking (VAB) services. In Japan and Korea, VAB is a cross-bank arrangement where the user uses a standard or compatible electronic banking platform, known as 'firm

## 1 – Reducing Days Sales Outstanding (DSO) – the order-to-cash supply chain



banking' to access multiple banks for account inquiry and transaction initiation.

In Japan and Taiwan, direct debit is common though not supported by the clearinghouse. Taiwanese companies usually arrange direct debit with banks while Japanese companies use a factoring company to intermediate with banks and post offices that also act as major collection centers. In Korea, consumer payments through PC or Internet banking are common as consumers generally do not issue checks. Besides direct debit arrangements, ATM transfers, and cash payments at banks, consumers in Japan and Taiwan make cash payments at post office and convenience stores.

In Korea, the government is reducing usage of promissory notes and promoting electronic payment via a virtual 'card' platform. Tax benefits are offered for consumers making payments using virtual card. For virtual cards, no physical cards are issued but virtual card numbers are given for closed loop usage, where the virtual card numbers provided can only be used for paying one or a few designated sellers. Currently, two types of card arrangements are offered: (1) Reverse purchase card arrangement, where the seller initiates a future-dated direct debit instruction for card payment collection, and (2) Purchase card arrangement, where the buyer initiates a future-dated EFT.

Group 3 countries are characterised by majority of payments being paper-based. Countries in Group 3 are Indonesia, Malaysia, the Philippines and Thailand. Checks are still the most

popular form of B2B payments. In Malaysia, the Philippines, and Thailand, about three quarters of B2B payments are made by check. In Indonesia, the local paper-based funds transfer system, LLG (*Lalu Lintas Giral*), is as popular as check payments.

*In Malaysia, the Philippines, and Thailand, about three quarters of B2B payments are made by check.*

Group 3 countries use RTGS for inter-bank settlements, and to a growing extent, for commercial payments. Minimum thresholds are imposed by the clearinghouses or banks for RTGS payments. In Malaysia, a minimum threshold of MYR50,000 is set for Rentas, while in

Indonesia, most banks impose a threshold of IDR 100 million.

Group 4 countries have limited payment channels with an evolving nationwide clearing system. China and Vietnam fall into this category. The leading local banks in these countries have efficient interbank payment networks to facilitate funds transfer. Cash is extensively used for C2B payments.

### Citibank solutions

Citibank's collections services are designed to mitigate the inefficiencies caused by the myriad payment channels and practices across Asia. Our Accounts Receivables solutions improve your collection process by accelerating availability and access to funds and payment information. We can collect from a wide variety of payment methods and provide you with enriched data, delivered electronically.

Our solutions set include:

### SpeedCollect<sup>SM</sup> Wholesale Lockbox

Wholesale Lockbox is an integrated solution for local and foreign-currency receivables. Citibank consolidates the information from various payment methods, enriches the data with remittance information received from payers, and transmits the data electronically to the client's system or in a host-to-host arrangement.

With the growth of Internet-based billing processes, Wholesale Lockbox can interface with clients' in-house Internet-based billing platforms as well as with Citibank® e-Billing, our electronic invoice presentment and payment solution.

## SpeedCollect<sup>SM</sup> Retail Lockbox

Retail Lockbox is a full range outsourcing service for retail collections. Citibank handles the incoming mail, check processing and clearing, reconciliation of payments with invoice details, and sends information electronically to clients for reconciliation. We have extensive collection capabilities in all markets, including alliances with post offices and convenience store chains, to provide the widest range of payment channels. We also participate in country-unique collection channels such as Payment-by-Phone Service (PPS) in Hong Kong and BPAY in Australia.

## SpeedCollect<sup>SM</sup> Remote Check Collection

In many markets, Citibank's duly authorised agents will collect sight or post-dated checks from even the most remote locations. The checks are sent to Citibank or a correspondent bank for immediate processing and clearing. Funds are credited into a single concentration account, eliminating idle balances and allowing clients to effectively manage working capital.

## SpeedCollect<sup>SM</sup> Funds Transfer Collections

Citibank's extensive correspondent networks and memberships in all major payment and clearing systems in Asia facilitate the collection of electronic incoming payments, both domestic and cross-border.

## SpeedCollect<sup>SM</sup> Receivables Financing

Receivables financing options include post-dated check discounting and off-balance sheet financing using your receivables as collateral. Our product specialists will work with you to structure a receivables financing solution that takes into account legal restrictions and applicable local market practices.

Through partnering with Citibank, companies can fulfill the fundamental objectives to achieve an efficient regional cash collection process.

## SpeedCollect<sup>SM</sup> Virtual Account

Virtual Account service is a reconciliation arrangement for companies to close their accounts receivables. Virtual Account service is normally used to reconcile open receivables, which requires only one reference number to close. Virtual accounts are suited for leasing, financing, direct sales, and companies collecting funds from consumers.

With Virtual Accounts, Citibank delivers the incoming credit information including reference numbers of the incoming funds in an electronic file to the client. The data can be used to automate both bank account and open accounts receivable reconciliation process. The Virtual Account service can be used for both domestic and cross-border incoming funds.

*Citibank's Accounts Receivables solutions improve your collections process by accelerating availability and accessibility to funds and payment information. We can collect from a wide variety of payment methods and provide you with enriched data of your incoming funds, delivered electronically. With Citibank, you can expect a single channel for collection and management of your local and regional receivables in Asia, the end result being better control over cash flow and optimal working capital efficiency. ♦*

### Citigroup

Citigroup® Global Transaction Services is a leading global provider of integrated cash management, trade finance and securities services solutions to multinational corporations, financial institutions and governments around the world. Citigroup's Internet-based cash management, electronic invoice presentment and payment, and supplier finance solutions empower clients to re-engineer collections and payables processes, integrate more tightly with their supply chain, and manage working capital more effectively. Citigroup provides a full range of products and services, along with on-the-ground presence and in-depth knowledge of 90 local markets for clients who transact over US\$ 1 trillion per day. For additional information, visit us at [www.cashtradetresury.citibank.com](http://www.cashtradetresury.citibank.com)

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Alan Lin is the Regional Product Manager for Citigroup's receivables management solutions for corporate clients in 14 countries in Asia Pacific. His responsibilities include product development of traditional collections, supplier financing, electronic billing, and Internet payment gateways solutions in Asia Pacific.